

**REPORT OF THE AUDIT OF THE  
JACKSON COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE JACKSON COUNTY FISCAL COURT**

**June 30, 2004**

The Auditor of Public Accounts has completed the audit of the Jackson County Fiscal Court for fiscal year ended June 30, 2004. We have issued unqualified opinions, based on our audit on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Jackson County's major federal program, Community Development Block Grant, for the year ended June 30, 2004.

#### **Financial Condition:**

The fiscal court had net assets of \$2,533,366 as of June 30, 2004. The fiscal court had unrestricted net assets of \$866,656 in its governmental funds as of June 30, 2004, with total net assets of \$2,528,404. In its enterprise fund, total net cash and cash equivalents were \$4,962 with total net assets of \$4,962. The fiscal court had total debt principal as of June 30, 2004 of \$459,692 with \$343,615 due within the next year.

#### **Report Comments:**

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits At All Times
- The Fiscal Court Should Approve All Debt Issued Or Incurred



<u>CONTENTS</u>	<u>PAGE</u>
MEMBERS OF THE JACKSON COUNTY FISCAL COURT .....	1
INDEPENDENT AUDITOR’S REPORT .....	1
JACKSON COUNTY OFFICIALS.....	5
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS .....	9
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	12
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	16
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	20
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	25
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS .....	29
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS .....	33
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	37
NOTES TO FINANCIAL STATEMENTS .....	38
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS .....	55
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	61
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS .....	65
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	69
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	73
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	77
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	78
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND .....	81
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL .....	81
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	81
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	85
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Tommy Slone, Jackson County Judge/Executive  
Members of the Jackson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Jackson County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Jackson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Jackson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business activities, each major fund, and the aggregate remaining fund information of Jackson County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Tommy Slone, Jackson County Judge/Executive  
Members of the Jackson County Fiscal Court

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The Jackson County Fiscal Court has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of budgetary comparison information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Jackson County, Kentucky's basic financial statements. The accompanying supplementary information, combining and individual fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of federal expenditures have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 18, 2005, on our consideration of Jackson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Tommy Slone, Jackson County Judge/Executive  
Members of the Jackson County Fiscal Court

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discuss the following report comments:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits At All Times
- The Fiscal Court Should Approve All Debt Issued Or Incurred

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
October 18, 2005



## JACKSON COUNTY OFFICIALS

For The Year Ended June 30, 2004

### **Fiscal Court Members:**

Tommy Slone	County Judge/Executive
Leon Bingham	Magistrate
Vester Rose	Magistrate
Edward Morgan	Magistrate

### **Other Elected Officials:**

George T. Hays	County Attorney
Ronnie Gabbard	Jailer
Donald Moore	County Clerk
Bobby G. Morris	Circuit Court Clerk
Tim Fee	Sheriff
Paul N. Rose	Property Valuation Administrator
Melvin Lakes	Coroner

### **Appointed Personnel:**

Patricia Gabbard	County Treasurer
William Gay	Finance Officer



**JACKSON COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2004**



**JACKSON COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2004**

	Primary Government		
	Governmental	Business-Type	Totals
	Activities	Activities	
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 861,656	\$ 4,962	\$ 866,618
Investments	5,000		5,000
Total Current Assets	866,656	4,962	871,618
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	245,373		245,373
Buildings	864,133		864,133
Vehicles and Equipment	831,246		831,246
Infrastructure Assets - Net of Depreciation	180,688		180,688
Total Noncurrent Assets	2,121,440		2,121,440
Total Assets	2,988,096	4,962	2,993,058
<b>LIABILITIES</b>			
Current Liabilities:			
Financing Obligations	343,615		343,615
Total Current Liabilities	343,615		343,615
Noncurrent Liabilities:			
Financing Obligations	116,077		116,077
Total Noncurrent Liabilities	116,077		116,077
Total Liabilities	459,692		459,692
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	\$ 1,661,748	\$	\$ 1,661,748
Unrestricted	866,656	4,962	871,618
Total Net Assets	\$ 2,528,404	\$ 4,962	\$ 2,533,366

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY



**JACKSON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2004**

**JACKSON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 768,653	\$ 7,119	\$ 1,126,730	\$
Protection to Persons and Property	694,462	2,310	243,580	
General Health and Sanitation	943,777	281,674		
Social Services	4,500			
Recreation and Culture	42,603			
Roads	690,789		133,343	
Airports	35,668			
Debt Service	19,779			
Capital Projects				605,394
Total Governmental Activities	3,200,231	291,103	1,503,653	605,394
Business-type Activities:				
Jail Canteen	20,675	23,236		
Total Business-type Activities	20,675	23,236		
Total Primary Government	\$ 3,220,906	\$ 314,339	\$ 1,503,653	\$ 605,394

**General Revenues:**

Taxes:	
Real Property Taxes	
Personal Property Taxes	
Motor Vehicle Taxes	
Other Taxes	
Excess Fees	
Miscellaneous Revenues	
Accrued Interest Received	
Total General Revenues and Transfers	
Change in Net Assets	
Net Assets - Beginning (Restated)	
Net Assets - Ending	

The accompanying notes are an integral part of the financial statements.

**JACKSON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2004**  
**(Continued)**

Net (Disbursements) Receipts and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ 365,196	\$	\$ 365,196
(448,572)		(448,572)
(662,103)		(662,103)
(4,500)		(4,500)
(42,603)		(42,603)
(557,446)		(557,446)
(35,668)		(35,668)
(19,779)		(19,779)
605,394		605,394
(800,081)		(800,081)
	2,561	2,561
	2,561	2,561
\$ (800,081)	\$ 2,561	\$ (797,520)
144,701		144,701
21,696		21,696
73,360		73,360
599,714		599,714
31,008		31,008
5,449		5,449
43,918		43,918
919,846		919,846
119,765	2,561	122,326
2,408,639	2,401	2,411,040
\$ 2,528,404	\$ 4,962	\$ 2,533,366

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**JACKSON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2004**

**JACKSON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2004**

	<b>General Fund</b>	<b>Road And Bridge Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>Transfer Station Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 77,428	\$ 563,624	\$ 3,461	\$ 108,756	\$ 48,857
Total Assets	<u>\$ 77,428</u>	<u>\$ 563,624</u>	<u>\$ 3,461</u>	<u>\$ 108,756</u>	<u>\$ 48,857</u>
<b>FUND BALANCES</b>					
Unreserved:					
General Fund	\$ 77,428	\$	\$	\$	\$
Special Revenue Funds		563,624	3,461	108,756	48,857
Total Fund Balances	<u>\$ 77,428</u>	<u>\$ 563,624</u>	<u>\$ 3,461</u>	<u>\$ 108,756</u>	<u>\$ 48,857</u>

**Reconciliation to Statement of Changes In Net Assets:**

Total Fund Balances	\$ 866,656
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities (Not financial resources and therefore are not reported in the funds.)	3,186,545
Total Accumulated Depreciation	(1,065,105)
Short-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
KADD Lease 2004	(300,000)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	<u>(159,692)</u>
Net Assets Of Governmental Activities	<u>\$ 2,528,404</u>

The accompanying notes are an integral part of the financial statements.

**JACKSON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2004**  
**(Continued)**

<b>Special Grant Fund</b>	<b>KADD Financing Trust Lease Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$ 3,662	\$	\$ 60,868	\$ 866,656
<u>\$ 3,662</u>	<u>\$ 0</u>	<u>\$ 60,868</u>	<u>\$ 866,656</u>
\$ 3,662	\$	\$ 60,868	\$ 77,428
<u>3,662</u>	<u></u>	<u>60,868</u>	<u>789,228</u>
<u>\$ 3,662</u>	<u>\$ 0</u>	<u>\$ 60,868</u>	<u>\$ 866,656</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY



**JACKSON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

**JACKSON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

	<u>General Fund</u>	<u>Road And Bridge Fund</u>	<u>Jail Fund</u>	<u>Local Government Economic Assistance Fund</u>
<b>REVENUES</b>				
Taxes	\$ 693,894	\$	\$	\$
In Lieu Tax Payments	85,740	57,666		
Excess Fees	31,008			
Intergovernmental	149,664	982,590	58,333	133,343
Charges for Services	15,322			
Miscellaneous			15,021	
Interest	2,253	37,161	486	2,717
Total Revenues	<u>977,881</u>	<u>1,077,417</u>	<u>73,840</u>	<u>136,060</u>
<b>EXPENDITURES</b>				
General Government	403,321	10,800		539
Protection to Persons and Property	173,606		324,651	5,687
General Health and Sanitation	73,725			
Social Services	1,000			3,500
Recreation and Culture	12,600			5,000
Roads		888,016		
Airports				35,668
Debt Service	9,748	25,296		
Administration	165,851	145,132	27,354	
Total Expenditures	<u>839,851</u>	<u>1,069,244</u>	<u>352,005</u>	<u>50,394</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>138,030</u>	<u>8,173</u>	<u>(278,165)</u>	<u>85,666</u>
<b>Other Financing Sources (Uses)</b>				
Lease Proceeds				
Cost Of Lease Issuance				
Transfers To Other Funds	(312,000)	(35,000)		(8,000)
Transfers From Other Funds	35,000	35,000	277,000	
Total Other Financing Sources (Uses)	<u>(277,000)</u>	<u></u>	<u>277,000</u>	<u>(8,000)</u>
Net Change in Fund Balances	(138,970)	8,173	(1,165)	77,666
Fund Balances - Beginning	216,398	555,451	4,626	31,090
Fund Balances - Ending	<u>\$ 77,428</u>	<u>\$ 563,624</u>	<u>\$ 3,461</u>	<u>\$ 108,756</u>

The accompanying notes are an integral part of the financial statements.

**JACKSON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2004**  
**(Continued)**

<b>Transfer Station Fund</b>	<b>Special Grant Fund</b>	<b>KADD Financing Trust Lease Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$	\$	\$	\$ 2,096	\$ 695,990
				143,406
				31,008
	605,394		172,536	2,101,860
266,352				281,674
			7,119	22,140
1,191		16	94	43,918
267,543	605,394	16	181,845	3,319,996
				414,660
			157,374	661,318
256,205	611,993			941,923
				4,500
			17,424	35,024
				888,016
				35,668
18,771		302,409		356,224
14,066				352,403
289,042	611,993	302,409	174,798	3,689,736
(21,499)	(6,599)	(302,393)	7,047	(369,740)
		300,000		300,000
		(5,000)		(5,000)
				(355,000)
			8,000	355,000
		295,000	8,000	295,000
(21,499)	(6,599)	(7,393)	15,047	(74,740)
70,356	10,261	7,393	45,821	941,396
\$ 48,857	\$ 3,662	\$ 0	\$ 60,868	\$ 866,656

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**JACKSON COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**



**JACKSON COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

Net Change in Fund Balances - Total Governmental Funds	\$	(74,740)
--	----	----------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		372,818
Depreciation Expense		(118,155)

The issuance of debt provides current financial resources while the repayment of the principal on debt consumes current financial resources. Neither transaction, however, has any effect on net assets.

Proceeds - KADD Lease Series 2004		(300,000)
Repayment - KADD Lease Series 2003		295,000
Financing Obligations Principal Payments		46,445
Financing Obligations Proceeds		(101,603)

Change in Net Assets of Governmental Activities	\$	<u>119,765</u>
---	----	----------------

THIS PAGE LEFT BLANK INTENTIONALLY



**JACKSON COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2004**



**JACKSON COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2004**

	<u><b>Enterprise Fund</b></u>
	<u><b>Jail Canteen Fund</b></u>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$     4,962
Total Current Assets	<u>4,962</u>
 Total Assets	 <u>4,962</u>
 <b>Liabilities</b>	
Total Liabilities	 <u>0</u>
 <b>Net Assets</b>	
Unrestricted	4,962
Total Net Assets	<u><u>\$     4,962</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**JACKSON COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**



**JACKSON COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

	<b>Enterprise Fund</b>
	<hr/>
	<b>Jail Canteen Fund</b>
	<hr/>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 23,236
Total Operating Revenues	<hr/> 23,236 <hr/>
<b>Operating Expenses</b>	
Other Expenses	20,458
Inventory	<hr/> 217
Total Operating Expenses	<hr/> 20,675 <hr/>
Operating Income (Loss)	<hr/> 2,561 <hr/>
Change In Net Assets	2,561
Total Net Assets - Beginning	<hr/> 2,401
Total Net Assets - Ending	<hr/> \$ 4,962 <hr/>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY



**JACKSON COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**



**JACKSON COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

	<u><b>Enterprise Fund</b></u>
	<u><b>Jail Canteen Fund</b></u>
<b>Cash Flows From Operating Activities</b>	
Receipts From Customers	\$ 23,236
Cost of Sales	<u>(20,675)</u>
Net Cash Provided By Operating Activities	<u>2,561</u>
Net Increase in Cash and Cash Equivalents	2,561
Cash and Cash Equivalents - July 1	<u>2,401</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 4,962</u></u>
	<u><b>Enterprise Fund</b></u>
<u><b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b></u>	<u><b>Jail Canteen Fund</b></u>
Operating Income	<u>\$ 2,561</u>
Total Cash Provided By Operating Activities	<u><u>\$ 2,561</u></u>

The accompanying notes are an integral part of the financial statements.

**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county prepares its financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Jackson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

**Blended Component Units**

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Units (Continued)

The KADD Financing Trust Lease Fund

The KADD Financing Trust lease Fund is established for the Fiscal Court for the purpose of providing financing for approved projects and is maintained by a third party trustee on the Fiscal Court's behalf; therefore, management must include this fund as a part of the reporting entity and its financial activity is blended with that of the Fiscal Court.

The Jackson County Recreation and Parks Board

The Jackson County Recreation and Parks Board is established for the purpose of maintaining and overseeing the day-to-day operations of the county parks. The Jackson County Fiscal Court is financially accountable for the Board; therefore, management must include the Board as part of the reporting entity and its financial activity is blended with that of the Fiscal Court.

**C. Jackson County Constitutional Elected Officials Not Part Of Jackson County, Kentucky**

The Kentucky constitution provides for election of the officials below from the geographic area constituting Jackson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Jackson County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary and fiduciary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, and expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid.

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for funds received and expended for the purposes intended as dictated by the applicable Kentucky Revised Statutes.

Transfer Station Fund - The purpose of this fund is to account for funds received and expended for operations of the transfer station and clean up of designated areas of the county.

Special Grant Fund - The purpose of this fund is to account for grant funds received and expended to special grant funded projects.

KADD Financing Trust Lease Fund - The purpose of this fund is to account for funds received from a KADD lease issuances. These funds may be used for the initial phases of a new judicial building.

The primary government also has the following non-major funds: Forestry Fund, DES Fund, and the Recreation and Parks Fund

**Special Revenue Funds:**

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Transfer Station Fund, Special Grant Fund, KADD Financing Trust Lease Fund, Forestry Fund, DES Fund, and the Recreation and Parks Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at a discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale on April 30.

**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds**

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements of Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements and Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).



**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-50

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the KADD Financing Trust Lease Fund and the Recreation and Parks Fund. The Governor's Office for Local Development does not require these funds to be budgeted.

**J. Jointly Governed Organizations**

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Jackson County McKee Industrial Development Authority meets the criteria noted above and is disclosed as an organization jointly governed by Jackson County and the City of McKee.

**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 2. Deposits**

**Deposits**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, as of June 30, 2004, the collateral and the FDIC insurance together did not equal or exceed the amount on deposit, leaving \$67,017 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of June 30, 2004.

	<u>Bank Balance</u>
FDIC Insured	\$ 200,000
Collateralized with securities held by pledging depository institution in the county's name	941,106
Uncollateralized and uninsured	<u>67,017</u>
Total	<u><u>\$ 1,208,123</u></u>

**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 245,373	\$	\$	\$ 245,373
Total Capital Assets Not Being Depreciated	245,373			245,373
Capital Assets, Being Depreciated:				
Buildings	1,236,215			1,236,215
Vehicles and Equipment	1,332,139	172,053		1,504,192
Infrastructure		200,765		200,765
Total Capital Assets Being Depreciated	2,568,354	372,818		2,941,172
Less Accumulated Depreciation For:				
Buildings	(344,532)	(27,550)		(372,082)
Vehicles and Equipment	(602,418)	(70,528)		(672,946)
Infrastructure		(20,077)		(20,077)
Total Accumulated Depreciation	(946,950)	(118,155)		(1,065,105)
Total Capital Assets, Being Depreciated, Net	1,621,404	254,663		1,876,067
Governmental Activities Capital Assets, Net	\$ 1,866,777	\$ 254,663	\$ 0	\$ 2,121,440

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 1,590
General Health	1,854
Protection to Persons and Property	38,814
Recreation and Culture	7,579
Roads, Including Depreciation of General Infrastructure Assets	68,318
Total Depreciation Expense - Governmental Activities	<u>\$ 118,155</u>

**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 4. Short-term Debt - Financing Obligations**

**A. KADD Lease - Series 2003**

On June 4, 2003, the Jackson County Fiscal Court entered into a one-year leasing agreement with KADD Financing Trust to refinance a previous KADD lease dated July 5, 2001. The proceeds of the original lease were used to purchase land for a new county courthouse. This lease matured on April 20, 2004. The principal due of 295,000 was paid in full.

**B. KADD Lease - Series 2004**

On May 7, 2004, the Jackson County Fiscal Court entered into a one-year leasing agreement with KADD Financing Trust to refinance a previous KADD lease dated June 4, 2003. The proceeds of the original lease were used to purchase land for a new county courthouse. The principal payment is due April 20, 2005.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 300,000	\$ 7,375
Totals	\$ 300,000	\$ 7,375

Changes In Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
KADD Lease - Series 2003	\$ 295,000	\$	\$ 295,000	\$	\$
KADD Lease - Series 2004		300,000		300,000	300,000
Financing Obligations Payable	\$ 295,000	\$ 300,000	\$ 295,000	\$ 300,000	\$ 300,000

**Note 5. Long-term Debt - Financing Obligations**

**A. Caterpillar Loader**

On May 8, 2000, the Jackson County Fiscal Court entered into a lease agreement with Caterpillar Financial Services for the purchase of a loader. Terms of the lease agreement stipulate a four-year repayment schedule with monthly principal and interest payments of \$1,456. The final payment on the grader was made in FY 2004.

**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 5. Long-term Debt - Financing Obligations (Continued)**

**B. 2002 Ambulance**

On September 17, 2002, the County entered into a lease agreement with Farmer's Bank and Capital Trust Co. for the purchase of an ambulance. Terms of the lease agreement stipulate a three-year repayment schedule with monthly principal and interest payments of \$975. As of June 30, 2004, the principal balance outstanding was \$15,126. Debt service requirements for fiscal years ending June 30, 2005 and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 11,251	\$ 447
2006	3,875	24
Totals	<u>\$ 15,126</u>	<u>\$ 471</u>

**C. 2003 Komatsu Wheel Loader**

On February 20, 2003, the County entered into a lease agreement with Komatsu Financial for the purchase of a Komatsu wheel loader. Terms of the lease agreement stipulate a five-year repayment schedule with monthly principal and interest payments of \$1,207. As of June 30, 2004, the principal balance outstanding was \$52,444. Debt service requirements for fiscal years ending June 30, 2005 and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 11,549	\$ 1,732
2006	13,091	1,397
2007	13,624	864
2008	14,180	309
Totals	<u>\$ 52,444</u>	<u>\$ 4,302</u>

**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 5. Long-term Debt - Financing Obligations (Continued)**

**D. 2003 GMC Dump Truck**

On May 30, 2003, the County entered into a lease agreement with Volvo Commercial Finance for the purchase of a GMC dump truck. Terms of the lease agreement stipulate a five-year repayment schedule with monthly principal and interest payments of \$1,025. As of June 30, 2004, the principal balance outstanding was \$43,864. Debt service requirements for fiscal years ending June 30, 2005 and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 10,041	\$ 2,260
2006	10,634	1,667
2007	11,262	1,040
2008	11,927	375
Totals	<u>\$ 43,864</u>	<u>\$ 5,342</u>

**E. 2003 Ambulance**

On January 13, 2004, the County entered into a lease agreement with Farmer's Bank and Capital Trust Co. for the purchase of an ambulance. Terms of the lease agreement stipulate a four-year repayment schedule with semi-annual principal and interest payments of \$6,741 due in July and January. As of June 30, 2004, the principal balance outstanding was \$48,258. Debt service requirements for fiscal years ending June 30, 2005 and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 10,774	\$ 2,458
2006	11,729	1,753
2007	12,479	1,003
2008	13,276	206
Totals	<u>\$ 48,258</u>	<u>\$ 5,420</u>

**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 5. Long-term Debt - Financing Obligations (Continued)**

**F. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 104,534	\$ 101,603	\$ 46,445	\$ 159,692	\$ 43,615
Governmental Activities					
Long-term Liabilities	\$ 104,534	\$ 101,603	\$ 46,445	\$ 159,692	\$ 43,615

**Note 6. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646

**Note 7. Insurance**

For the fiscal year ended June 30, 2004, Jackson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.



**JACKSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 8. Changes in Accounting Principles and Prior Period Adjustments**

The county has elected to implement Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The beginning net assets balance for the governmental activities was \$2,408,639 and the beginning fund balance for the governmental funds was \$941,396 for an increase of \$1,467,243. The effect of this change on the beginning net assets of the governmental activities is primarily due to capital assets previously not reported, and the effect of long-term debt.

**Note 9. Estimated Infrastructure Historical Cost**

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. Then current year construction cost was deflated back to this estimated year of construction to arrive at estimated historical costs.

THIS PAGE LEFT BLANK INTENTIONALLY

**JACKSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**For The Fiscal Year Ended June 30, 2004**



**JACKSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**

**For The Fiscal Year Ended June 30, 2004**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 624,740	\$ 624,740	\$ 693,894	\$ 69,154
In Lieu Tax Payments	66,000	66,000	85,740	19,740
Excess Fees	7,800	7,800	31,008	23,208
Intergovernmental Revenue	434,875	434,875	149,664	(285,211)
Charges for Services	20,000	20,000	15,322	(4,678)
Miscellaneous	2,000	2,000		(2,000)
Interest	6,000	6,000	2,253	(3,747)
Total Revenues	<u>1,161,415</u>	<u>1,161,415</u>	<u>977,881</u>	<u>(183,534)</u>
<b>EXPENDITURES</b>				
General Government	408,423	421,333	403,321	18,012
Protection to Persons and Property	200,651	191,301	173,606	17,695
General Health and Sanitation	319,000	283,840	73,725	210,115
Social Services	1,000	1,000	1,000	
Recreation and Culture	42,600	42,600	12,600	30,000
Debt Service			9,748	(9,748)
Administration	153,250	184,850	165,851	18,999
Total Expenditures	<u>1,124,924</u>	<u>1,124,924</u>	<u>839,851</u>	<u>285,073</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>36,491</u>	<u>36,491</u>	<u>138,030</u>	<u>101,539</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds				
Transfers To Other Funds	(265,659)	(265,659)	(312,000)	(46,341)
Transfers From Other Funds	<u>75,168</u>	<u>75,168</u>	<u>35,000</u>	<u>(40,168)</u>
Total Other Financing Sources (Uses)	<u>(190,491)</u>	<u>(190,491)</u>	<u>(277,000)</u>	<u>(86,509)</u>
Net Changes in Fund Balance	(154,000)	(154,000)	(138,970)	15,030
Fund Balance - Beginning	<u>154,000</u>	<u>154,000</u>	<u>216,398</u>	<u>62,398</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 77,428</u>	<u>\$ 77,428</u>

**JACKSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**For The Fiscal Year Ended June 30, 2004 (Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
InLieu Tax Payments	\$ 60,440	\$ 60,440	\$ 57,666	\$ (2,774)
Intergovernmental Revenue	751,313	841,313	982,590	141,277
Interest	10,000	10,000	37,161	27,161
Total Revenues	821,753	911,753	1,077,417	165,664
<b>EXPENDITURES</b>				
General Government	10,800	10,800	10,800	
Roads	852,797	958,797	888,016	70,781
Debt	56,000	32,000	25,296	6,704
Administration	181,222	189,222	145,132	44,090
Total Expenditures	1,100,819	1,190,819	1,069,244	121,575
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(279,066)	(279,066)	8,173	287,239
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(75,168)	(75,168)	(35,000)	40,168
Transfers From Other Funds			35,000	35,000
Total Other Financing Sources (Uses)	(75,168)	(75,168)		75,168
Net Changes in Fund Balance	(354,234)	(354,234)	8,173	362,407
Fund Balance - Beginning	354,234	354,234	555,451	201,217
Fund Balance - Ending	\$ 0	\$ 0	\$ 563,624	\$ 563,624

**JACKSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**For The Fiscal Year Ended June 30, 2004 (Continued)**

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 56,741	\$ 78,681	\$ 58,333	\$ (20,348)
Miscellaneous			15,021	15,021
Interest	2,000	2,000	486	(1,514)
Total Revenues	58,741	80,681	73,840	(6,841)
<b>EXPENDITURES</b>				
Protection to Persons and Property	304,800	343,724	324,651	19,073
Administration	44,600	42,616	27,354	15,262
Total Expenditures	349,400	386,340	352,005	34,335
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(290,659)	(305,659)	(278,165)	27,494
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	265,659	280,659	277,000	(3,659)
Total Other Financing Sources (Uses)	265,659	280,659	277,000	(3,659)
Net Changes in Fund Balance	(25,000)	(25,000)	(1,165)	23,835
Fund Balance - Beginning	25,000	25,000	4,626	(20,374)
Fund Balance - Ending	\$ 0	\$ 0	\$ 3,461	\$ 3,461

**JACKSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**For The Fiscal Year Ended June 30, 2004 (Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 43,500	\$ 65,500	\$ 133,343	\$ 67,843
Interest	150	150	2,717	2,567
Total Revenues	43,650	65,650	136,060	70,410
<b>EXPENDITURES</b>				
General Government	1,200	1,200	539	661
Protection to Persons and Property	6,900	5,900	5,687	213
General Health and Sanitation	6,250	6,250		6,250
Social Services	3,500	3,500	3,500	
Recreation and Culture	12,000	13,000	5,000	8,000
Roads	15,000	37,000	35,668	1,332
Total Expenditures	44,850	66,850	50,394	16,456
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,200)	(1,200)	85,666	86,866
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds			(8,000)	(8,000)
Total Other Financing Sources (Uses)			(8,000)	(8,000)
Net Changes in Fund Balances	(1,200)	(1,200)	77,666	78,866
Fund Balances - Beginning	1,200	1,200	31,090	29,890
Fund Balances - Ending	\$ 0	\$ 0	\$ 108,756	\$ 108,756



**JACKSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**For The Fiscal Year Ended June 30, 2004 (Continued)**

<b>TRANSFER STATION FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Charge For Services	\$ 230,000	\$ 230,000	\$ 266,352	\$ 36,352
Interest	2,500	2,500	1,191	(1,309)
Total Revenues	232,500	232,500	267,543	35,043
<b>EXPENDITURES</b>				
General Health	223,500	264,643	256,205	8,438
Debt Service	16,988	20,588	18,771	1,817
Administration	10,800	16,057	14,066	1,991
Total Expenditures	251,288	301,288	289,042	12,246
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	(18,788)	(68,788)	(21,499)	47,289
Net Changes in Fund Balances	(18,788)	(68,788)	(21,499)	47,289
Fund Balances - Beginning	18,788	68,788	70,356	1,568
Fund Balances - Ending	\$ 0	\$ 0	\$ 48,857	\$ 48,857

**JACKSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**For The Fiscal Year Ended June 30, 2004 (Continued)**

	<b>SPECIAL GRANT FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 970,000	\$ 1,543,100	\$ 605,394	\$ (937,706)
Total Revenues	970,000	1,543,100	605,394	(937,706)
<b>EXPENDITURES</b>				
General Health and Sanitation	970,000	1,543,100	611,993	931,107
Total Expenditures	970,000	1,543,100	611,993	931,107
Excess (Deficiency) of Revenues Over Expenditures			(6,599)	(6,599)
Net Changes in Fund Balances			(6,599)	(6,599)
Fund Balances - Beginning			10,261	10,261
Fund Balances - Ending	\$ 0	\$ 0	\$ 3,662	\$ 3,662

**JACKSON COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2004**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

THIS PAGE LEFT BLANK INTENTIONALLY

**JACKSON COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2004**



**JACKSON COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2004**

	<b>Forestry Fund</b>	<b>DES Fund</b>	<b>Recreation and Parks Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,061	\$ 43,183	\$ 16,624	\$ 60,868
Total Assets	<u>\$ 1,061</u>	<u>\$ 43,183</u>	<u>\$ 16,624</u>	<u>\$ 60,868</u>
<b>FUND BALANCES</b>				
Unreserved:				
Special Revenue Funds	\$ 1,061	\$ 43,183	\$ 16,624	\$ 60,868
Total Fund Balances	<u>\$ 1,061</u>	<u>\$ 43,183</u>	<u>\$ 16,624</u>	<u>\$ 60,868</u>

THIS PAGE LEFT BLANK INTENTIONALLY



**JACKSON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Fiscal Year Ended June 30, 2004**



**JACKSON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Fiscal Year Ended June 30, 2004**

	<b>Forestry Fund</b>	<b>DES Fund</b>	<b>Recreation and Parks Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>				
Taxes	\$ 2,096	\$	\$	\$ 2,096
Intergovernmental		172,536		172,536
Charge For Services			7,119	7,119
Interest	42		52	94
Total Revenues	<u>\$ 2,138</u>	<u>\$ 172,536</u>	<u>\$ 7,171</u>	<u>\$ 181,845</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	\$ 2,407	\$ 154,967		\$ 157,374
Recreation and Culture			17,424	17,424
Total Expenditures	<u>\$ 2,407</u>	<u>\$ 154,967</u>	<u>\$ 17,424</u>	<u>\$ 174,798</u>
Excess (deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>(269)</u>	<u>17,569</u>	<u>(10,253)</u>	<u>7,047</u>
<b>Other Financing Sources (Uses)</b>				
Transfers From Other Funds			8,000	8,000
Total Other Financing Sources (Uses)			<u>8,000</u>	<u>8,000</u>
Net Change in Fund Balances	(269)	17,569	(2,253)	15,047
Fund Balances - Beginning	1,330	25,614	18,877	45,821
Fund Balances - Ending	<u><u>\$ 1,061</u></u>	<u><u>\$ 43,183</u></u>	<u><u>\$ 16,624</u></u>	<u><u>\$ 60,868</u></u>

THIS PAGE LEFT BLANK INTENTIONALLY

**JACKSON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For The Fiscal Year Ended June 30, 2004**



**JACKSON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Fiscal Year Ended June 30, 2004**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Jackson County, Kentucky.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. Two instances of noncompliance material to the financial statements of Jackson County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Jackson County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Jackson County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant (CDBG) – CFDA #14.228
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Jackson County was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**NONCOMPLIANCES:**

**Reference Number 2004-1**

**The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits At All Times**

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of June 30, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$67,017 of public funds uninsured and unsecured. We recommend the County require the depository institution to pledge or provide sufficient collateral to protect deposits at all times.

*County Judge/Executive Tommy Slone's Response: We bank at Jackson Co. Bank. All funds now corrected.*

**JACKSON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Fiscal Year Ended June 30, 2004  
(Continued)**

**Reference Number 2004-2**

The Fiscal Court Should Approve All Debt Issued Or Incurred

During our review of debt and debt service expenditures, we noted the county entered into a lease agreement with KADD Financing Trust for \$300,000 in May 2004. The proceeds from this lease were used to refinance a previous KADD lease for \$295,000 dated July 2003. The original proceeds were used to purchase land in anticipation of AOC approving Jackson County for a new courthouse. While we did obtain documentation from the State Local Debt Officer that he had been notified of the lease, we were unable to find fiscal court's approval of this lease. We recommend that the fiscal court authorize any debt issued or incurred.

*County Judge/Executive Tommy Slone's Response: Correct, was put in the book 2004-2005.*

REPORTABLE CONDITIONS:

None.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

None.



**JACKSON COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Other Supplementary Information**

**For The Fiscal Year Ended June 30, 2004**



**JACKSON COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Other Supplementary Information**

**For The Fiscal Year Ended June 30, 2004**

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
 Cash Programs:		
 <u>U.S. Department of Housing and Urban Development</u>		
 Passed-Through State Department for Local Government:		
Community Development Block Grant (CFDA #14.228)	00-038	\$ 575,000
 <u>U.S. Department of Commerce</u>		
 Passed Through National Oceanic Atmospheric Administration:		
Pride Community Grant (CFDA #11.469)	CF03-14	50,000
 <u>U.S. Department of Transportation</u>		
 Passed Through State Department of Transportation:		
Intermodal Surface Transportation Efficiency Act (Big Hill Welcome Center) (CFDA #20.205)	C-02436496	30,000
 <u>U.S. Department of Homeland Security</u>		
 Passed-Through State Department of Military Affairs:		
Chemical Stockpile Emergency Preparedness Program (CFDA #97.040)	M-03276169	156,823
 Homeland Security Grants Program (CFDA # 97.004)	 M-03138124	 22,635
 Homeland Security Grants Program (CFDA # 97.004)	 M-03254738	 <u>5,124</u>
 Total U.S. Department of Homeland Security		 <u>\$ 184,582</u>
 Total Cash Expenditures of Federal Awards		 <u><u>\$ 839,582</u></u>

**JACKSON COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Other Supplementary Information**

**For The Fiscal Year Ended June 30, 2004**

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Jackson County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Tommy Slone, Jackson County Judge/Executive  
Members of the Jackson County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Jackson County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 18, 2005. Jackson County presents its financial statements in accordance with modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Jackson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Jackson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed an instance of material noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

- Reference Number 2004-1: The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits At All Times
- Reference Number 2004-2: The Fiscal Court Should Approve All Debt Issued Or Incurred



Report On Internal Control Over Financial Reporting And  
Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and the Kentucky's Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
October 18, 2005



**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Tommy Slone, Jackson County Judge/Executive  
Members of the Jackson County Fiscal Court

**Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Jackson County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Jackson County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Jackson County's management. Our responsibility is to express an opinion on Jackson County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Jackson County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Jackson County's compliance with those requirements.

In our opinion, Jackson County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Jackson County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Jackson County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Jackson County Fiscal Court, the Kentucky's Governor's Office for Local Development, and federal awarding agencies and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
October 18, 2005

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**JACKSON COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2004**



**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**JACKSON COUNTY FISCAL COURT**

For The Fiscal Year Ended June 30, 2004

The Jackson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Tommy Slone  
County Judge/Executive



Patricia Gabbard  
County Treasurer